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December 6, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: NSTAR Electric/NSTAR Gas, D.T.E. 05-85

Dear Ms. Cottrell:

Enclosed for filing are an original and nine (9) copies of: (1) the Joint Motion for Approval of Settlement Agreement; and (2) the Settlement Agreement entered into by Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge"), Commonwealth Electric Company ("Commonwealth") (together, "NSTAR Electric"), NSTAR Gas Company ("NSTAR Gas", collectively with NSTAR Electric, the "Companies") and the Attorney General of Massachusetts (the "Attorney General"), the Low-Income Energy Affordability Network ("LEAN") and Associated Industries of Massachusetts (collectively with the Companies, the "Settling Parties").

The Settlement Agreement is intended to resolve certain issues with regard to the Companies' proposed base rate case that was to have been filed pursuant to G.L. c. 164, § 94 and ancillary matters. By its terms, the Settlement Agreement shall be deemed withdrawn if it is not approved in its entirety by the Department by December 30, 2005. A check in the amount of $100 for the filing fee is also enclosed.

As described in paragraph 1.2 of the Settlement Agreement, NSTAR Electric and NSTAR Gas would have sought general rate increases totaling approximately $89 million. The testimony and exhibits in support of that rate increase, which the Companies had planned to file in October, are included in Exhibit NSTAR-1 (Settlement). It was contemplated that, at the conclusion of the general rate case, the Companies would have filed proposals for a price-cap form of rate regulation, similar to those approved in the past by the Department.

In recognition of the impact of rising energy prices on customers, the Companies entered into negotiations with the Attorney General and others to pursue alternative ways to provide the Companies with sufficient revenues to be able to continue providing quality service to customers, while mitigating rate impacts to the extent practicable. This

Settlement Agreement, which is the result of extensive negotiations among the Settling Parties, provides some immediate rate relief and long-term price stability for customers, while providing the Companies with sufficient revenues and incentives to pay for necessary system and service improvements over the next seven years.

Article 2 of the Settlement Agreement contains its substantive terms. Each of the eight sections of Article 2 is described below.

- **Rate Plan for NSTAR Electric (paragraphs 2.1 through 2.12)**

The Settlement Agreement provides for an Alternative Rate Stabilization Plan that will provide for a reduction in the rates that NSTAR Electric customers pay for distribution and transition charges and stabilize the sum of those rates over a seven-year period. On January 1, 2006, the transition charges for NSTAR Electric will be reduced by approximately $20 million below the rates that are being proposed in the annual reconciliation filings (D.T.E. 05-88 and D.T.E. 05-89). Beginning on May 1, 2006, and annually on January 1st thereafter, distribution rates for NSTAR Electric would increase, but those increases would be offset by reductions in the transition charges.

- **Rate Plan for NSTAR Gas (paragraphs 2.13 through 2.15)**

The Settlement Agreement provides for NSTAR Gas to withdraw its request for a distribution rate increase and to defer recovery of approximately $18.5 million in gas costs that are presently being recovered in the cost-of–gas-adjustment clause ("CGAC"). The deferral will result in a decrease in the CGAC factor on January 1. 2006. NSTAR Gas intends to file a proposal for a price-cap plan, and the Settlement Agreement provides that the existing rates will be used as the cast-off rates for purposes of such a proposal.

- **Merger of NSTAR Electric (paragraphs 2.16 through 2.18)**

The Settlement Agreement includes provisions relating to a request to be filed in 2006 for approval of the formal corporate merger of Cambridge, Commonwealth and Canal Electric Company into Boston Edison, which would create a single NSTAR Electric Company. This will be the final step in the merger of NSTAR. For the last five years, all of the electric companies have been acting operationally as a single entity, and the formal merger will simplify accounting and recordkeeping. There is no distribution rate change associated with the merger, except for the impact on transmission rates for Cambridge. Because Cambridge presently classifies its 13.8 kilovolt ("kV") facilities as "transmission," the transmission tariffs filed with the Federal Energy Regulatory Commission ("FERC") would need to change when Cambridge is merged into Boston Edison. In order to resolve this unusual treatment of 13.8 kV facilities, the Settlement Agreement permits those facilities to be reclassified as "distribution" and the revenue recovery transferred from transmission rates to distribution rates on January 1, 2007.

- **Expansion of Boston Edison Storm Fund (paragraphs 2.19 through 2.20)**

The Settlement Agreement provides for the expansion of the existing Boston Edison Storm Fund, initially established in the Boston Edison Restructuring Settlement approved by the Department in D.P.U./D.T.E. 96-23. The storm fund will now be available for Cambridge and Commonwealth with the fund level increased from $8 million to $13.5 million, using proceeds from emissions credits that were sold in the past.

- **Procurement Initiatives (paragraphs 2.21 through 2.22)**

The Settlement Agreement provides for new initiatives for procuring Basic and Default Service for customers of NSTAR Electric and NSTAR Gas. For NSTAR Electric, staggered contract purchases having terms of one, two and three years will be used to procure Basic Service supplies for residential customers in order to reduce the price volatility facing those customers. NSTAR Gas will implement the gas procurement program approved by the Department in D.T.E. 04-63 and develop a fixed-price gas supply option for residential and small commercial Default Service customers.

- **Customer Service Quality, Safety and Reliability Programs (paragraphs 2.23 through 2.36)**

The Settlement Agreement provides for a series of programs designed to supplement the existing service-quality plan already in place and approved by the Department. These new initiatives include enhanced incentives intended to align the interests of customers and the Companies. The programs include: (1) an arrearage forgiveness program; (2) projects designed to provide enhanced inspections of manholes and stray voltage; (3) accelerated removal of double poles; (4) informational "report cards" for customers on service-quality performance; (5) an audit of SAIDI/SAIFI reporting; (6) a service-quality metric for electric circuit performance; and (7) a service-quality metric for gas leaks per mile.

In addition, the Settlement Agreement provides for NSTAR Electric to continue to work with the Attorney General to advocate on behalf of customers with regard to electricity market inefficiencies. These efforts will include litigation activities at the FERC, as well as identifying and minimizing the difference between actual electric market dispatch and unconstrained marginal cost dispatch and minimizing unnecessary Reliability Must Run costs to customers.

- **Other Settled Issues (paragraphs 2.37 through 2.38)**

The Settlement Agreement provides that NSTAR Electric will adopt an agreed-to capital structure and informational filing relating to transmission rates presently under consideration at the FERC. The Companies also agree to confer with LEAN and the Attorney General about low-income discount rates.

The Settling Parties have worked diligently to achieve an agreement that is in the best long-term interests of customers and the Companies. The Settlement Agreement, by its nature, represents the result of the "give-and-take" of negotiations. It is for this reason that it creates no precedent for other cases (paragraphs 3.1 and 3.2), and the terms of the Settlement Agreement are not severable (paragraph 3.4). The Companies believe that this Settlement Agreement is a creative and beneficial alternative to a traditional rate proceeding and extensive litigation. Therefore, the Settling Parties urge the Department to approve the Settlement Agreement.

Please acknowledge receipt of this filing by date-stamping the enclosed copy of this letter and returning them in the envelope provided. Thank you for your attention to this matter.

Very truly yours,

Robert J. Keegan

Enclosures

cc: Hon. Paul G. Afonso, Chairman
Hon. James Connelly, Commissioner
Hon. W. Robert Keating, Commissioner
Hon. Judith F. Judson, Commissioner
Hon. Brian P. Golden, Commissioner
Andrew O. Kaplan, General Counsel
Kevin Brannelly, Director, Rates and Revenue Requirements Division
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